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COPY NO. 1 SERIES A

FROM : American Embassy, Tripoli

TO : THE DEPARTMENT OF STATE, WASHINGTON.

August 13, 1956
DATE

REF : Department's July 24, 1956

This document consists of 3 pages
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AUG 29 1956 DEPARTMENT OF STATE MESSAGE CENTER

SUBJECT: British Government's Proposal for a Review of Libyan Economic Development

JOINT EMBASSY-USOM MESSAGE

The Embassy-USOM can readily understand the British Government's concern, as expressed in the Aide Memoire of July 19, 1956 presented to the Department of State by the British Embassy in Washington, over the progress of the Libyan Government's economic development efforts. There is little doubt that the Libyan Government's haste to make political capital from concrete evidences of economic development has resulted in an almost total disregard of certain basic elements of a properly planned and executed development program. During the last four years no serious effort has been made to ascertain in any but very general terms the goals toward which Libyan developmental efforts should be directed, the composition of a balanced program that might reasonably be expected to attain those goals, or the probable results of such a program in increased income and expenditure, either public or private. A study along part, at least, of the above lines was made by the United Nations and its specialized agencies in 1951-52 (the Higgins report) but that report is and has been for some time largely out-of-date. The rapid obsolescence of the report suggests the need for an organization empowered to investigate these subjects on a continuing basis, rather than on a single-time or intermittent task-force basis. Aside from the desirability of constant review of developmental targets and priorities, the fact remains that the United States Government is not prepared to make long-term commitments for development assistance, which fact, in conjunction with the possible availability to Libya, from time to time, of development funds from other sources and the difficulties of estimating at long range with any degree of accuracy the probable increases in the Libyan Government's domestic budgetary revenues and expenditures, necessitates a continuous review of any development program in order to tailor the suit to fit the cloth.

The Libyan Government's newly organized Development Council, according to its announced plan of organization, procedures, and objectives (TOICA A-699, June 13, 1956 and TOICA A-31, August 2, 1956), will provide such a continuing review of developmental needs, resources, and recurrent costs. In addition, it will compile or do its best to compile the basic economic data required for adequate developmental planning, data which have hitherto been conspicuous by their absence.

From the July 19th Aide Memoire, it would appear that Her Majesty's Government believe that the "present £L 40 million development plan," presumably the plan

773.5-MSP/8-1856

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drafted by joint Libyan-U.S.-U.K. representatives in February of this year, is an actual working plan for development and is firmly supported by the Libyan Government. The Department can assure Her Majesty's Government that it is neither. The drafting committee, while agreeing to the "plan" as a reasonable expression of the magnitude of Libya's developmental needs, reserved judgment on its content, including feasibility of individual projects, phasing of projects, and cost estimates. Since that time, the Libyan Government, by the actions of its representatives in regard to LARC allocations, has given every indication that the £L 40 million "plan" is a dead letter, except to the extent that it embodies certain projects which the Libyan Government still wishes to have implemented. The Government closely restricted circulation of the plan even among its own agencies, and has never formally presented it to LARC as an expression of the Libyan Government's developmental needs or desires. The tentative LARC program for 1956/57, approved by the Libyan representatives on the Commission, bears little resemblance except in broad outline to the £L 40 million plan. Joint Anglo-American or tripartite review of that plan would seem to be a useless exercise.

The actual need is for the compilation of a real development plan which would not be just another list of projects. For the development of such a plan there are needed (a) certain basic data which are not now available, (b) a continuing effort to assess the feasibility of projects (with technical consultation), (c) the compilation of a balanced plan with an assignment of priorities subject to constant review, (d) estimates of the recurrent costs involved in each project and in the total plan, and (e) the application of Libyan financial resources, as they become known, to accomplish as much of the plan as possible. These objectives cannot be achieved by a single-time review. The elimination of overlapping between development agencies is a part, but in actual fact, only a relatively minor part, of the job that needs to be done. The present machinery for eliminating overlaps has worked well and is constantly being improved.

The Embassy-USOM believe that it should be recognized now that economic development in Libya will inevitably increase the budgetary obligations of the Libyan Government. It will also increase revenues, but for a number of years the increases in obligations are likely to exceed the increases in revenues. This will be particularly true if the Government's developmental expenditures are restricted, as they should be, to the provision of those necessary facilities in which private enterprise would not be interested; i.e., where the direct return in revenue is small or nonexistent. Furthermore, a balanced economic development program requires substantial expenditures in fields such as education and health where revenue returns will be virtually nil and recurrent costs are usually heavy. This is not to say that no effort should be made to reduce to a minimum the recurrent costs engendered by development projects, but once again such an effort must be continuous. It cannot be done once and for all by a task force.

Control over all economic development in Libya will not in the foreseeable future be achieved by any professional, non-political body. The Libyan Government would not permit such a useful political weapon to be entirely removed from its grasp, although in the main it has accepted proffered technical advice on develop-

ment programs and projects. Nor does it seem that the U. S. Government could submit its grant funds to control by such a body, which would have to be international in composition. Since the Development Council will not have control powers and consequently need not be feared as an all-powerful agency, it will, with strong support, more readily be able to accomplish at least the purpose of giving the existing development agencies a balanced program within the framework of which they can work more effectively and will provide better machinery for coordination of their efforts.

It is the strong belief of the Embassy-USOM, therefore, that U.S.-U.K. efforts to direct Libyan developmental processes into more fruitful channels would be better expended in assuring the success of the Development Council. A bipartite U.S.-U.K. review of the development "plan" or the development situation would seem to promise few results of lasting value, and a tripartite review would probably produce nothing but further Libyan requests for funds on an almost purely political basis. The Development Council is by far the better prospect, although if it is to succeed in its tasks, it will need strong backing. It must have an adequate professional staff, both in quality and quantity, and the Libyan Government must be persuaded to permit it to do its job.

The United Nations Technical Assistance Board, through its Resident Representative in Libya, has already provided a competent Director for the Council's staff -- Mr. Harold Caustin, Deputy Resident Representative of UNTAB and Chief Economist of the U. N. Mission in Libya. USOM/L has offered the services of a Secretary. Other supporting professional staff members will be required and the U. S. and U. K. Governments would be well advised to provide them as quickly as possible, as well as the services of consultants in particular technical fields in addition to those now available in Libya. The Council will, of course, need the full cooperation of all Libyan Government departments if it is to be able to accomplish its tasks, and strong representations from the U. S. and U. K. Governments may at times be necessary in order to insure such cooperation.

For the Ambassador:

Rodger P. Davies

Rodger P. Davies
Counselor of Embassy

cc: Benghazi
USOM/L
(Cleared in draft with MJGordon)